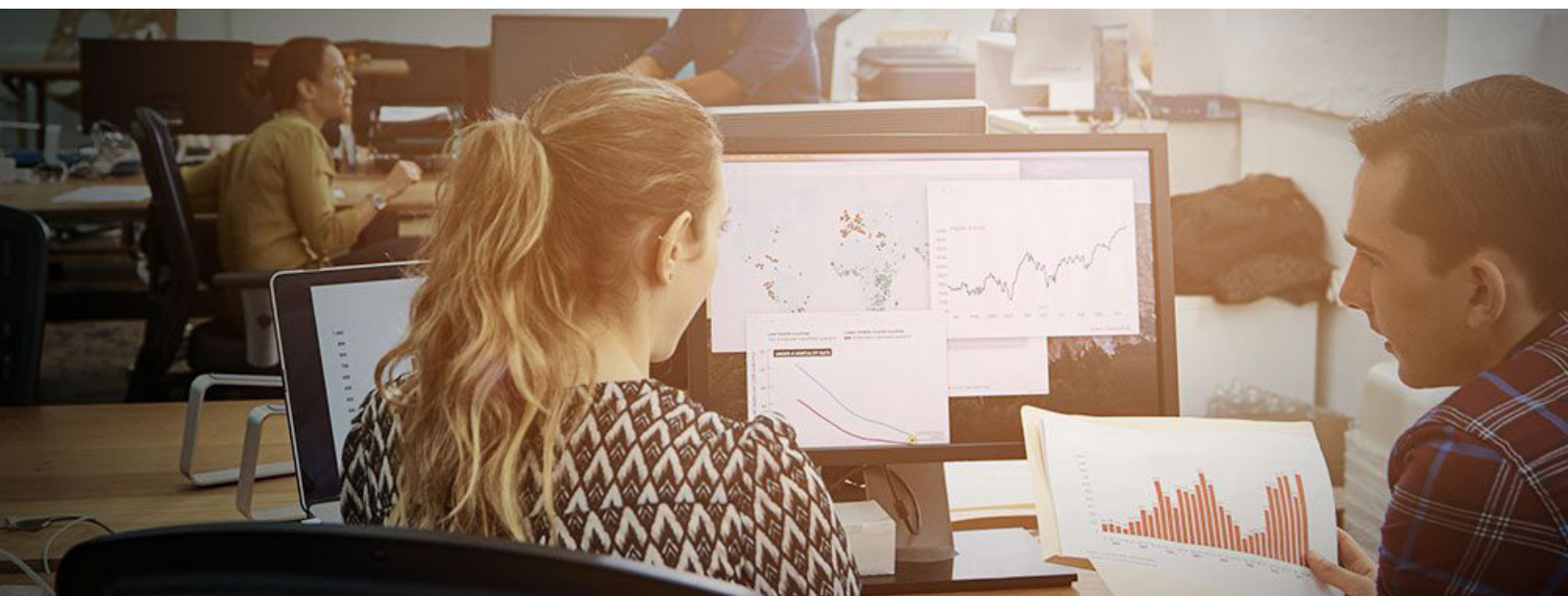


The Sales Forecast: Top 4 Barriers to Sales Team Accuracy



Companies have long struggled with how to include Sales team insights into their operations forecasts. The potential benefits are great; Sales has unique insights into rising trends, market shifts, and new competitors. They are on the ground speaking with current and potential clients daily. Without their market intelligence, companies become blind to the opportunities and threats brought on by rapidly changing markets. Forecasts from Sales, however, are often inaccurate or incomplete.

In this white paper, we discuss the cultural and structural barriers that prevent Sales from providing accurate information. We detail the cause of each barrier and how to overcome it based on decades of experience helping companies create forecasts they can trust.

Learn what barriers are keeping your company from staying ahead of the competition. Companies can resolve most of these issues by letting forecasters and Sales focus on their areas of expertise.

Barrier #1: Asking for the wrong information

The meaning of “forecast” and “forecast accuracy” often differs depending on whether you’re speaking to Sales, Operations, Marketing, Finance, or others. It’s easy to inadvertently request information from Sales that proves more detrimental than helpful for forecasts.

Executive Summary:

- Sales forecasts are notoriously inaccurate because sales people are not forecasters. They can play a part, however, if you let them contribute what they know best.

Vanguard’s Solution:

- Fully automated forecast preparation in a single cloud platform designed to also capture Sales team knowledge and insight.

Impact on Client’s Business:

- Truer forecasts that cut waste and improve service levels, reputation, customer loyalty, and the bottom line.

There are two forecast types:

- Judgment forecasting: Intuition and experience, best for responding to sudden demand shifts. Not ideal for discerning trends and patterns in large data sets.
- Quantitative forecasting: Statistical analysis of past trends and patterns. By nature, slow to respond to demand shifts. Best for large data sets.

The most trustworthy forecasts combine both methods to support their strengths and mitigate their weaknesses.

Forecasts from Sales are primarily judgment-based forecasts. Sales examines their pipeline, estimates the value of potential deals, and assigns a probability of closing. These estimates are sometimes done with CRMs and lead scoring tools, but all methods require an individual sales person asking, “What’s the likelihood of this sale closing?” The sales forecast is, in essence, a combination of educated guesses. This approach works well for sales management; they get a good sense of the sales pipeline and can oversee their staff.

Operations, however, needs forecasts that are far more precise, right down to the unit level. It is challenging to push Sales towards this precision because of the nature of judgment forecasts. Judgment forecasts are prone to biases that fluctuate with time, day, recent experiences, and more. The following biases undercut accuracy:

Motivational bias	If the forecast results in particular rewards (financial, political, professional pride, etc.), the individual will be motivated to adjust the forecast to achieve the rewards. See Barrier #2 for more details.
Memory bias	People tend to overestimate the power of events that they best remember. For example, if two clients really hated a certain product within the same time frame, the team might believe this means the product is doomed even though 90% of total clients are happy.
Correlation bias	A team might incorrectly believe that a factor that correlated with a product’s success or failure caused that success or failure. For example, a new color is given credit for improved sales, but improved sales were actually the result of a random fluctuation.
Confidence bias	Top sales people are particularly prone to this bias because, by nature, they are resilient in the face of rejection. This optimism is a great quality given how often a sales person is told “no.” It is the key to sales success. However, this confidence may cause sales people to overestimate their close rate.

In asking for Sales contribution to forecasts, companies often are asking for judgment forecasts. Asking Sales for every SKU, only priority SKUs, or adjustments/overrides of baseline forecasts, etc. are all essentially asking for judgment forecasts. Changing the number or manner of forecasts that Sales must contribute does not change the essential judgment-forecasting process Sales uses. Individual biases can accumulate, causing inaccuracies.

Solution to Barrier #1: Asking for the wrong information

For accurate demand forecasting, you should rely primarily on quantitative forecasting methods. Statistical forecasting is typically far more accurate than judgment forecasts. It can find trends and patterns otherwise difficult to detect within the data noise. Statistical forecasting can also shorten the forecast cycle. As a result, the sales team, unless they're made up of statistics experts, is not the ideal choice to own a forecast within the demand planning process.

Sales teams can contribute best to forecasts by stepping in where statistical tools fail: sudden demand change. Statistical forecasts, by nature, react very slowly to demand change. They are based on averages, to different extents. Moving an average takes multiple periods. For most modern companies, this is not fast enough to remain competitive. Sudden demand change includes the entrance, exit, expansion, or contraction of new and current clients. Competitor entrance and exit also impacts sales. Your sales team will often know this information. Additionally, they will know of incoming large orders or cancellations that have not yet been input into the data systems. You want this information in your demand forecast.

To collect sudden demand change data from your sales force, it's best to keep the process as simple as possible. A complicated process acts as a barrier to adoption. Ideally, individual sales members can fill out a form that lists SKUs by their specific customers (sales people think in terms of their personal clients). They should input only related demand changes: no more, no less. No special knowledge of coding should be required. A simple, straightforward input of unit increases or decreases on expected changes is best.

Following is an example input screen used in Vanguard Predictive Planning:

Date	Jan 2018	Feb 2018	Mar 2018	Apr 2018	May 2018	Jun 2018	Jul 2018	Aug 2018	Sep 2018	Oct 2018
Starting Value	7,780	7,870	7,958	8,045	8,132	8,218	8,304	8,388	8,472	8,555
<input checked="" type="checkbox"/> North America Advertising (x)	-69	-42	-25	-15	-8	-5	-3	-1	-1	-0
<input checked="" type="checkbox"/> SKU100 Promotions (+)	0	0	0	0	0	0	0	0	0	0
<input checked="" type="checkbox"/> Amazon.com						+100	+300	+500	+500	+500
<input checked="" type="checkbox"/> Dillards								+200	+200	+200
Subtotal	7,712	7,827	7,933	8,031	8,124	8,314	8,601	9,087	9,171	9,254
NA Hardware Sales (Sales)	7,421	7,524	7,496	7,588	7,713	7,998	8,408	8,666	8,669	8,862
NA Budget (Budget)	7,619	7,427	7,678	7,988	7,820	8,367	8,899	9,359	9,260	9,427
<input checked="" type="checkbox"/> Overrides										
Forecast	7,712	7,827	7,933	8,031	8,124	8,314	8,601	9,087	9,171	9,254

In Predictive Planning, Sales staff can decide to view their clients by SKU, or SKUs by client. In this example, the sales person is viewing clients by SKU 100. They can see historic demand, average demand, and type in or manually add any major demand changes. After speaking with contacts at Amazon and Dillards, this sales person knows they're planning to expand and increases his forecast of SKU 100. He inputs the data into his sales table. The software automatically adds this new information to the forecast using calculations that avoid double-counting (some demand changes were already predicted) and that weights the changes' importance. The software also similarly updates interdependent items. This example also shows that the Marketing team has an advertising campaign that affects SKU 100. Managers can review the sales person's accuracy over time and make decisions about whether or not to adjust his individual contributions.

After the sales staff inputs these changes, the baseline forecast can adjust accordingly either through an automated system or through manual efforts by a forecaster. Be sure that the new demand data is separated from the baseline forecast and given greater weight. Otherwise, the new data will get averaged in and you lose the ability to see and respond to a sudden demand change.

Many software packages allow sales staff to directly create adjustments and overrides to baseline forecasts, but the temptation to create adjustments beyond known demand changes is too strong and, moreover, difficult to track or roll back. The data is also averaged in, making it less useful for detecting big changes. Access to the baseline forecast to test what-if scenarios works well for the sales and operations planning process (S&OP) or at another step, but can lead to judgment forecasting during data collection.

Barrier #2: Motivating Sales to give inaccurate forecasts

Companies often unknowingly create processes that motivate Sales to under- or over-forecast. This occurs whenever companies treat forecasts and plans interchangeably. A forecast should be an independent measure of demand, behaving as a weather vane. Plans use forecasts to prepare: they get the umbrellas ready. Plans apply real-world constraints like capacity, budget, or corporate goals to the forecasts.

What happens when you don't differentiate the plan from the forecast? The goals of individual departments and the company dominate the forecast. In this scenario, the demand planner, is often told to change the forecast because it feels "too low" or "too high" as it contradicts what a department wants to happen. Changing a forecast because of political needs destroys the objectivity and, therefore, functionality of the forecast.

Sandbagging or underforecasting sales

Often companies complain about Sales "sandbagging" or under-forecasting to achieve bonuses. When forecasts and plans are identical, the cause of sandbagging is more complicated than individual financial gain. Sales managers rely on achievable bonuses to motivate their teams. A Harvard Business Review article from 2012 notes that setting targets to beat serves as the most effective motivator for sales staff. However, target beating is a sign that the forecast is inaccurate.

The dilemma sales managers face is if forecasts are accurate, targets are not beatable and hence there is little chance of bonuses. Staff becomes discouraged and performance stagnates because the team will begin to think, "What's the point in doing better?" Arguing that better forecasts help operations management is too abstract to serve as a good incentive. As a result, sales management has a strong incentive to lower forecasts. This can cause stock-outs and poor service levels.

Over-forecasting sales

Less discussed but equally damaging for operations, sales teams will knowingly increase forecasts. Over-forecasting harms Sales' ability to earn target-beating bonuses, but that is preferable to poor service. Delayed orders or stock-outs lead to angry calls directly from clients or, worse, lost deals. To protect themselves against this scenario, Sales over-forecasts to ensure sufficient production/inventory, leading to holding excessive inventory and related carrying costs.

Solution to Barrier #2: Motivating Sales to give inaccurate forecasts

To combat both under- and over-forecasting, sales quotas and targets should be separated from the forecasts. Sales can continue to develop its own forecast with its CRM system, but companies should recognize that these forecasts are judgment-based (see Barrier #1) and best-suited for department-specific strategies.

By separating Sales' plans from the forecasts, the sales teams' forecast no longer impact production and revenue targets. Sales loses incentive to under- or over-forecast. This results in greater weight being placed on statistical forecasts and a stronger need for a review process. Separating the forecast from the plan also allows companies to become more agile. Because companies treat forecasts as independent, there's less corporate pressure to have forecasts look a certain way.

Sales can remain part of the overall forecasting process via a sales and operations planning process (S&OP). The S&OP process gives sales teams an opportunity to discuss differences between the statistical forecasts and their own department-specific sales pipeline forecasts. These conversations help the operations team identify potential issues. Consensus is easier to arrive at when Sales is not motivated to protect its compensation structure or has the ability to change production levels.

Moreover, separating plans from forecasts gives companies a competitive edge in a Big Data age. Leading companies do their best to improve forecast accuracy by differentiating between a forecast and a plan. According to Aberdeen, it's only the laggards who haven't made forecasting accuracy a priority.

Quiz: Are you confusing the sales forecast for the sales plan?

- Does "not liking" a forecast lead to a change in the forecast?
- Does your organization engage in long debates about what the forecast numbers should be?
- Is a forecast "bad" if it doesn't match management expectations?
- Has anyone ever asked, "What do you want the forecast to look like?" And built a forecast accordingly?

If you answered "yes" to any of these questions, you have not separated sales forecasts from sales plans. A forecast's only purpose is to reflect the future, not aspirations or desires. Managers are free to change plans, but forecasts should be politically neutral. You need forecast independence to get an untarnished view of what's ahead.

Barrier #3: Turning sales people into forecasters

One of the most common responses to inaccurate forecasts from Sales is to improve sales force forecasting skills. The strategies include hiring practices, education, and revamped compensation structures. At first, this seems like a good approach as forecasting accuracy increases. However, these strategies impact the quality and efficacy of the sales staff. The negative impact on a company is easy to overlook; they don't measure the cost of a weakened sales team.

Following are common approaches to forecast accuracy that can have negative long-term impact:

Only hiring sales people with excellent quantitative skills	<p>The assumption is that having strong quantitative skills means that a sales person is trainable in forecasting. This underestimates forecasting's complicated nature, especially as the number of SKUs, groups, families, etc. grows. Forecasting is a specialized skill.</p> <p>Companies that are able to hire excellent sales people who are also great forecasters are lucky. Setting up the exception as the standard, however, means eliminating a lot of top sales people, or worse, compromising and choosing lesser sales people.</p>
Training sales team in forecasting	<p>Training usually consists of only basic forecasting techniques. The company should turn elsewhere for basic forecasting. Forecasting software and/or trained forecasters are much better at producing baseline forecasts than a sales team.</p> <p>The most valuable input that Sales can provide is exceptions. This type of input, about a new product, for example, is complex and beyond the reach of a moving average. In other words, basic forecasting skills can't capture this information anyway.</p>
Assign a forecasting team to Sales	<p>Some organizations assign one or more forecasters to Sales in order to create baseline forecasts and monitor adjustments for accuracy. While this brings forecasting expertise close to the sales team, it doesn't mean the sales team will provide better input. Negative impacts include:</p> <ul style="list-style-type: none">• Increased expenses due to forecasting staff expansion• Disengagement by the sales team as forecasters continually change data shared by Sales; incentives to provide good data diminish with time• Relocating instead of eliminating the data accuracy problem; the forecasting team gets the blame rather than the sales team.
Base bonus system on forecast accuracy instead of Sales' performance	<p>Some companies eliminate quota-based bonuses entirely and replace them with bonuses for forecasting accuracy. This prioritizes forecasts over profit. Sales predictions improve, but the incentive for better performance disappears. Sales teams have no reward for doing better than expected and are, in fact, rewarded for not closing deals above the target. The price of resulting lost sales and motivation is difficult to measure.</p>

Solution to Barrier #3: Turning sales people into forecasters

A big picture perspective is necessary. A company does best with great sales people, not mediocre sales people good at forecasting. What sales people are good at, trained in, and hired for is to sell. It does not make sense to force them outside their skill set. A forecaster, on the other hand, is good at, trained in, and hired for forecasting. Letting these experts do what they do best improves job contentment and the health of the company.

The next question often asked is, “But where will I get my sales forecast?” The answer is always from the statistical forecast. Any demand planner will tell you that a baseline forecast is more accurate than the standard forecast from Sales. To get information that a statistical forecast can’t capture, ask the Sales team to contribute only the key insights that cause demand to fluctuate (see Solution to Barrier 1 for more detail).

Barrier #4: Sales input doesn’t seem to matter

Forecasting is too often a black box where there’s no tangible way to see how one’s work makes a difference. If Sales believes their input makes little to no impact on the final demand forecast, they are apt to find the entire exercise pointless. This leads to indifference and general foot-dragging. Companies cultivate this attitude when they ask for information that they appear to not use.

The following popular forecasting processes can discount Sales:

Creating statistical forecasts with no Sales input	Sales input is never collected in this process. This works sufficiently for smaller companies with stable demand and few SKUs.
Consensus forecast by discussion	Representatives from Operations, Finance, Sales, etc. discuss what the forecast figures should be. This approach favors the loudest voice in the room. If that voice is not Sales, chances are high their input gets discounted.
Forecast by weighted combined average	After attempting to create forecasts based on simple averages, companies find that departments manipulate the numbers to their own ends and hurt accuracy. Forecasting teams try to fix this by weighting the average by the department’s historic accuracy. The sales team usually has high historic inaccuracy (see Barriers 1, 2, and 3). This causes Sales input to have increasingly less impact on the overall forecast.

Once the sales team becomes disengaged from the forecasting process, their data quality goes down. There’s little advantage to their involvement as they are ignored. Even entering basic exceptions becomes a task placed on the back-burner, done haphazardly, or avoided altogether. The organization loses crucial insights like large new orders, sudden client closures, or new trends.

Solution to Barrier #4: Sales input doesn’t seem to matter

Sales will not offer timely, accurate information until it’s clear that the requested information serves a purpose and the process is transparent. Transparency means that for every change made, it is clear who, when, where, and why the change was made. Transparency encourages accountability.

Sales input, if narrowly defined by exceptions by SKU by client, make it simpler for Sales to contribute and easier to track changes. Traditionally, when Sales was asked to share exceptions, they were given access to the entire baseline forecast. It was difficult to track who made changes and why. There was a strong tendency to fiddle with the forecast and make more adjustments than were necessary. To overcome this, be specific in requests for exceptions.

Review the screenshot on page 3 to see how Vanguard Predictive Planning utilizes a separate Sales input screen to update forecasts by company and SKU. Since you know who made each change, it's easy to follow-up with the sales person with any questions.

Vanguard has over 20-years' experience building the most precise forecasting and supply chain optimization solutions available. Learn more at vanguardsw.com.



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